



New Issue: MOODY'S ASSIGNS INITIAL A1 RATING TO THE CITY OF WHITEWATER'S (WI) \$1.5 MILLION SEWER SYSTEM REVENUE BONDS, SERIES 2012

Global Credit Research - 25 Apr 2012

WHITEWATER (CITY OF) WI
Sewer Enterprise
WI

Moody's Rating

ISSUE	RATING
Sewer System Revenue Bonds, Series 2012	A1
Sale Amount \$1,505,000	
Expected Sale Date 05/08/12	
Rating Description Revenue: Government Enterprise	

Moody's Outlook NOO

Opinion

NEW YORK, April 25, 2012 --Moody's Investors Service has assigned an initial A1 rating to the city of Whitewater's (WI) \$1.5 million Sewer System Revenue Bonds, Series 2012. Post-sale, the utility will have \$5.6 million of revenue debt, of which \$1.5 million is rated by Moody's.

SUMMARY RATINGS RATIONALE

The bonds, which are secured by net revenues of the city's sewer utility, will finance utility improvements. The A1 rating reflects the city's customer base concentration, satisfactory legal provisions, healthy financial position, and manageable debt burden.

STRENGTHS

- Demonstrated willingness to increase rates, with autonomous rate setting authority
- Satisfactory legal covenants

CHALLENGES

- Stagnating usage trend
- High concentration with top 10 users comprising 29.3% of total billings

DETAILED CREDIT DISCUSSION

SATISFACTORY LEGAL PROVISIONS WITH FULLY FUNDED DEBT SERVICE RESERVE FUND

The bonds are obligations of the Whitewater Sewer System and debt service is payable from net sewerage revenues. Sewerage revenues are primarily derived from charges for services. Legal protections included within the bond resolution provide satisfactory security for bondholders. The rate covenant and additional bonds test are set at an adequate 1.2 times of maximum annual debt service for all outstanding revenue bonds. The bond resolution also requires a debt service reserve fund fully funded to meet the traditional three tier test of maximum annual debt service, 10% of principal, or 125% of average annual debt service for the current offering and parity bonds.

Additional security includes the city's pledge to cure deficiencies for reasonable costs and services should the systems revenues fall below the pledged 1.2 times Annual Debt Service Requirement, though this pledge is subject to appropriation. We believe the security features of the bonds are satisfactory.

STRONG DEBT SERVICE COVERAGE EXPECTED TO CONTINUE DUE TO ANNUAL RATE INCREASES

We expect the system's financial operations to remain satisfactory due to a reasonable net working capital balance and a 7% rate increase implemented in July 2011. In fiscal 2010, Moody's calculation of the system's net working capital stood at \$1.7 million, or a satisfactory 137.8% of operating and maintenance expenses. Favorably, the utility maintains local rate setting authority and typically increases rates by 5% to 7% annually. Fiscal 2011 debt service coverage based on preliminary results is expected to be a strong 1.92 times coverage.

LOCAL ECONOMY DOMINATED BY STATE UNIVERSITY EXPECTED TO REMAIN STABLE

We expect the city's tax base to remain stable due to the institutional presence provided by the presence of the University of Wisconsin at Whitewater. The city is favorably located 45 miles southeast of Madison (general obligation rated Aaa/stable outlook) and 55 miles southwest of Milwaukee (rated Aa2/stable outlook). The local economy is dominated by the UW-Whitewater campus and, while the university's property is tax-exempt and consequently unavailable as a taxable resource, the university is the city's largest employer with 1,500 full-time employees and has an enrollment of approximately 11,600. Despite recent aid cuts to the state's university system, the Whitewater campus is expected to continue to expand, albeit at a slower pace than over the last several years.

The utility's customer base is relatively concentrated with the top 10 users accounting for 29.3% of billings. The top user is UW-Whitewater, which accounts for 17.6% of the utility's billings. This concentration is offset by the stability of this institutional user. The system's total number of customers at 3,693 has been relatively stable over the last five years. Residential customers comprise a significant 83.6% of total customers. The number of gallons of sewage treated by the system decreased slightly in fiscal 2011 and is expected to remain fairly consistent going forward.

MODERATE DEBT RATIO WITH NO LARGE SCALE BORROWING PLANNED

The city's sewage treatment facility has an average daily flow capacity of 3.65 million gallons per day with current usage of 1.38 million gallons per day. The system is currently at approximately 38% of capacity. The utility's debt ratio is moderate, with total revenue and general obligation debt supported by the sewer utility comprising 14.8% of net fixed assets and net working capital in 2010. Principal amortization of the sewer revenue debt is above average with 72.1% of principal repaid in ten years.

WHAT COULD MOVE THE RATING UP

- Substantial improvement in debt service coverage
- Strengthened net working capital and liquidity
- Strong expansion of customer base

WHAT COULD MOVE THE RATING DOWN

- Deterioration in annual debt service coverage below similarly rated enterprises
- Significant leveraging of net revenues above affordable levels

KEY STATISTICS:

System: Sewer collection and treatment (open loop)

Number of Customers (2010): 3,693

City of Whitewater population (2010 Census): 14,390

Fiscal 2010 Debt ratio: 14.8%

Fiscal 2012 Pro forma debt service coverage: 1.6 times coverage

Fiscal 2010 Operating ratio: 64.0%

Post-sale Moody's rated revenue debt outstanding: \$1.5 million

Post-sale revenue debt outstanding: \$5.6 million

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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